ALROSA Q4 and 12M 2019 IFRS results

Moscow, 10 March 2020 – ALROSA, the world's leader in diamond mining, announces its IFRS financial results for Q4 2019 and FY 2019.

- **Revenue** in 12M declined by 21% to RUB 238 bn on the back of reduced sales by 12%. This decline is attributable to weaker demand in the rough and polished diamonds market (mainly in 1H 2019), lower average like-for-like diamond price index (down 6%), and a higher share of small-size diamonds in the sales mix. In Q4, revenue increased by 41% q-o-q (up 5% y-o-y) to RUB 65 bn driven by stronger sales and growth in average realised prices.
- **EBITDA** amounted to RUB 107 bn (down 31%) on lower top line, while in Q4 2019 EBITDA increased by 40% q-o-q (up 10% y-o-y) to RUB 30 bn.
- **EBITDA margin** in 12M was 45% (down 7 pp). In Q4, EBITDA margin increased by 2 pp y-o-y to 46% (flat q-o-q).
- **Free cash flow (FCF)** in 12M decreased by 48% to RUB 48 bn on lower profitability as top line declined, along with a working capital build-up in 2019, which was partly offset by downscaled capex from initially planned RUB 29 bn to RUB 20 bn. Q4 FCF increased to RUB 17 bn, reflecting a 3.3x increase in the operating cash flow along with a seasonal rise in capex (up 49% q-o-q).
- **Net profit** in 12M declined by 31% to RUB 63 bn amid lower revenue partially offset by rising FX gains. Q4 net profit stood at RUB 12 bn (down 14% q-o-q, up 47% y-o-y).
- **Net debt / LTM EBITDA**[1] increased to 0.7x as at the end of 2019 (vs 0.4x as at the end of 2018).
- **2020 guidance:**
    - Production – 34.2 m carats;
    - Capex – RUB 22 bn.

[1] EBITDA stands for the Group's earnings or loss for the period adjusted for income tax expenses, financial income and expenses, share of net profit of associates and joint ventures, depreciation and amortisation, impairment and disposals of property, plant and equipment, gain or loss on disposal of joint ventures, revaluation of investments, and one-off items.

RUB bn	Q4 2019	Q3 2019	q-o-q	Q4 2018	y-o-y	12M 2019	12M 2018	y-o-y
Diamond sales, m ct, incl.	8.2	6.4	*28%*	9.0	*(9%)*	33.4	38.1	*(12%)*
gem-quality	5.9	4.3	*38%*	5.3	*13%*	24.2	26.4	*(8%)*
industrial	2.2	2.1	*9%*	3.7	*(40%)*	9.3	11.7	*(21%)*
Revenue	64.6	45.7	*41%*	61.4	*5%*	238.2	299.6	*(21%)*
EBITDA	29.5	21.1	*40%*	26.9	*10%*	107.1	156.0	*(31%)*
EBITDA margin	46%	46%	*(0.3 pp)*	44%	*2%*	45%	52%	*(7 pp)*
Net profit	11.7	13.6	*(14%)*	7.9	*47%*	62.7	90.4	*(31%)*
Free cash flow[2]	16.8	2.5	*572%*	14.3	*18%*	47.6	92.3	*(48%)*
Net debt[3]	79.6	63.0	*26%*	67.4	*18%*	79.6	67.4	*18%*
Net debt / LTM EBITDA	0.7x	0.6x	–	0.4x	–	0.7x	0.4x	–

Alexey Philippovskiy, ALROSA's CFO, commented on the results:

"In the first half of 2019, the diamond market was impacted by the excessive supply of polished diamonds and a decreased availability of funding for the Indian midstream segment. Diamond producers were able to adjust their sales policy by reducing supply by 20%, helping to improve the balance of demand and supply across the chain as early as by the end of 2019. Starting from the middle of the year, the market saw prices and demand stabilisation, with monthly sales demonstrating a positive trend in August - December. In the second half of 2019, consumer activity recovered across key sales markets, above all in the US.

Still, the overall weakening of demand for diamonds in 2019 caused the diamond price index to go down by 6% vs 2018. 2019 was marked by stronger demand for small-size diamonds, reflected in a 16% reduction in average realised prices.

In 1H 2020, jewellery demand will be impacted by exogenous factors. At the same time, the diamond industry looks much healthier in 2020, with balanced stocks, both for jewellery in retail, and for cutters' diamonds, and with the mid-stream leverage back to historical levels

ALROSA's financials in 2019 saw expected pressure from external factors. Sales went down by 12% y-o-y to 33.4 m carats. 2019 revenue decreased by 26% to $3,273 m. In Q4, revenue picked up by 48% y-o-y to $888 m amid improved demand and destocking in the midstream and retail.

Total debt for 2019 increased by 23% to $1.9 bn.

2019 FCF stood at RUB 48 bn (down by 48%), with capex declining by 28% to RUB 20 bn. In Q4, FCF was up 6.7x q-o-q and reached RUB 16.8 bn despite seasonal capex growth (up 49% q-o-q).

Net debt / EBITDA as at the end of Q4 2019 stood at 0.7x, in line with the target leverage and higher than in Q3 2019, which is mainly explained by a 1H 2019 dividend cash payment of RUB 27.7 bn".

[2]FCF (free cash flow) is the operating cash flow calculated in accordance with the International Financial Reporting Standards (IFRS), net of capital expenditure (posted as Purchase of Property, Plant and Equipment on the consolidated IFRS statement of cash flows).

[3]Net debt is the amount of debt less cash and cash equivalents and bank deposits at each reporting date in accordance with the IFRS.

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Key events in the next three months (*Investor calendar*)

11 March	February 2020 sales results
10 April	March 2020 sales results
16 April	Q1 2020 operating results
12 May	April 2020 sales results
18 May	Q1 2020 IFRS results – conference call with management
10 June	May 2020 sales results

PUBLICATIONS ARCHIVE

- Q4 and 12M 2019 IFRS results
- January 2019 sales results
- Q4 and 12M 2019 trading update
- Investor Day

MANAGEMENT DISCUSSION AND ANALYSIS OF ALROSA GROUP FOR Q4 2019 AND 12M 2019

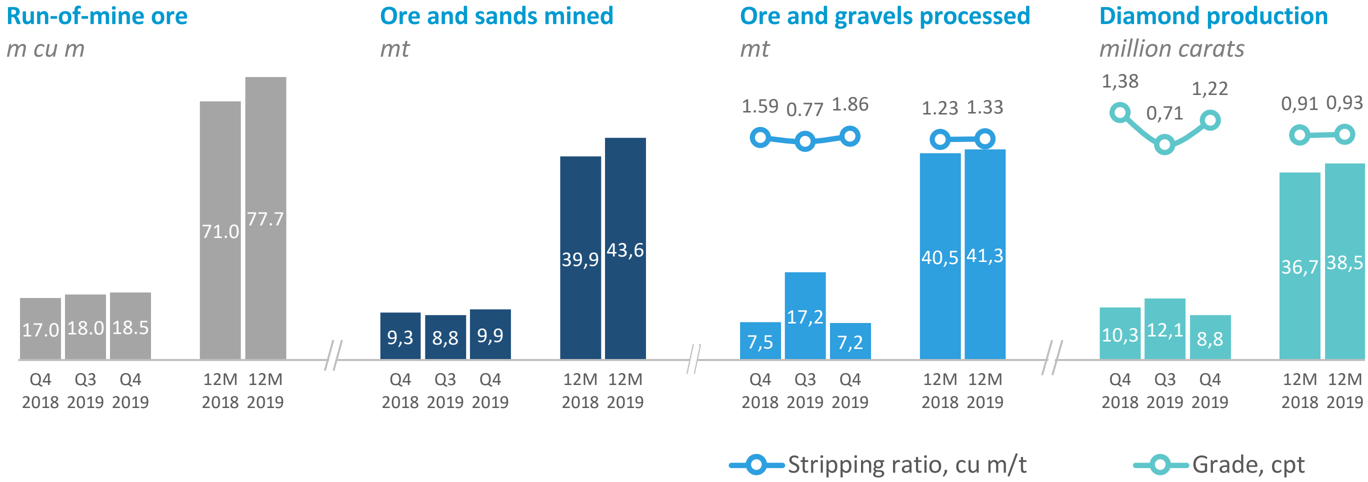
The structure and scope of the report and overview of ALROSA's business are shown in Appendix 4.

2019 ROUGH AND POLISHED DIAMOND MARKET OVERVIEW

- The market environment went closer towards its normal state by the end of 2019, mostly as a result of improved consumer sentiment in key markets, including the US during the holiday season (November 2019 – January 2020).
- In 2019, midstream destocking came on the back of reduced diamond supply and a decline in cutting operations, along with a rise in demand for some categories of polished diamonds, driven by orders from the US in the run-up to the Christmas season.
- Flexible sales policies of diamond miners helped reach the supply and demand balance in the market. Cutting and polishing companies increased their production and volumes of purchased diamonds ahead of Q1 2020, when jewellery businesses usually start restocking following the Christmas sales.

Hereinafter, data on Q4 2019 and 12M 2019 production, sales, prices, and inventories is preliminary and may be updated. Operational data does not include consolidation of Kristall group, which was acquired by ALROSA Group in October 2019. Data on Kristall's production, sales and inventories shown for information purposes on pages 3 and 5 is preliminary and may be updated. Data on the diamond market is the Company's estimate. Financial results of ALROSA Group for 2019 include consolidation of Kristall group.

OPERATING HIGHLIGHTS



Run-of-mine ore: 18.5 m cu m

- **Q4 run-of-mine ore**[4] went up by 3% q-o-q to 19 m cu m, mostly due to a seasonal increase in preparatory pre-mining operations at Almazy Anabara.
- **On a y-o-y basis**, run-of-mine ore increased by 9% both in **Q4 2019** and **12M 2019** (to 77.7 m cu m), driven mostly by the launch of production at the Verkhne-Munskoye deposit and implementation of design solutions at the Lomonosov Division's Arkhangelskaya pipe (Severalmaz) (cutback for pit deepening).

Production: 8.8 m cts

- **Q4 diamond production** saw a seasonal reduction by 27% q-o-q to 8.8 m cts (seasonal suspension of operations at alluvial deposits). A 15% y-o-y decline was caused by a drop in diamond production at the Jubilee pipe and the International underground mine.
- **12M production** grew by 5% y-o-y to 38.5 m cts. The key drivers are the ramp-up of production at the V.Munskoye deposit (launched in Q4 2018), and increased output at the Botuobinskaya pipe of the Nyurba Division as a result of (a) larger volumes of higher-grade ore processing and (b) higher performance of processing capacities.

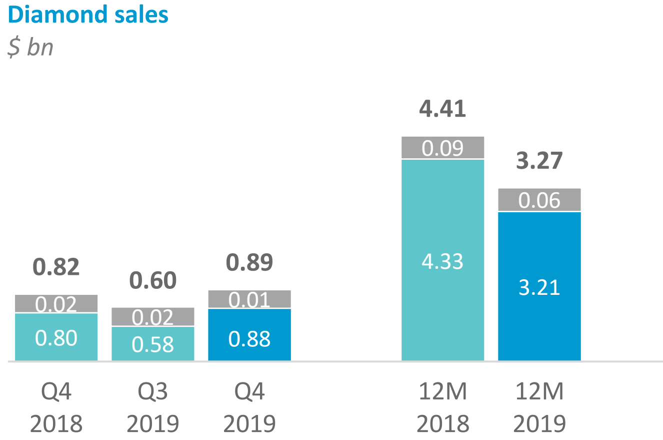
Average diamond grade:
Q4 – 1.22 cpt
12 M – 0.93 cpt

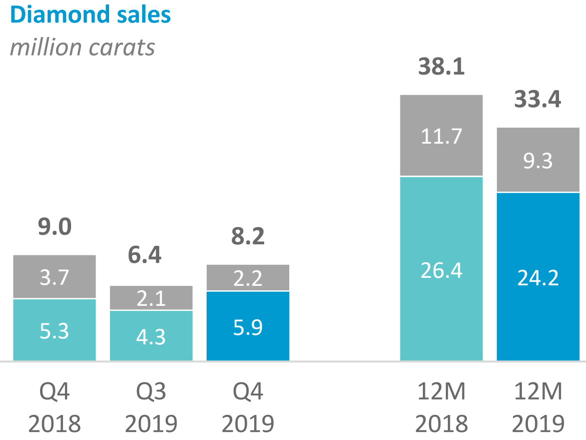
- **Q4 stripping ratio**[5] went up by 2.4 times q-o-q to 1.86 cu m / t mostly due to a seasonal suspension of gravels processing at the Almazy Anabara deposits coupled with a seasonal increase in rock moved by 3.8x q-o-q. A 17% y-o-y rise was driven by an increase in stripping operations at Severalmaz as well as higher annual volumes of rock moved during pit deepening at the Nyurbinskaya pipe. These factors also contributed to **12M stripping ratio** growing to 1.33 cu m / t (up 8%).
- **Q4 average diamond grade** saw an increase of 72% q-o-q to 1.22 cpt due to a seasonal suspension of production at lower-grade alluvial deposits. A 12% y-o-

[4] Less pre-stripping
[5] The stripping ratio is calculated as rock moved in cubic metres (less pre-stripping) divided by ore and gravels processed (in tonnes).

y drop was mostly due to a lower share of high-grade ore processing at the Aikhal and International underground mines.

- **12M average diamond grade went up by 3% to 0.93 cpt**, driven by an increase in high-grade ore processing at the Botuobinskaya pipe.





Gem-quality diamonds Industrial diamonds

Q4 sales: 8.2 m cts

- **In Q4 2019, diamond sales (ex. polished diamonds) increased by 1.8 m cts q-o-q to 8.2 m cts (up 28% q-o-q)**, with sales of gem-quality diamonds improving by 1.6 m cts to 5.9 m cts (up 38% q-o-q) amid a gradual recovery in diamond demand. On a y-o-y basis, gem-quality diamond sales grew by 13% due to cutters' restocking and recovering consumer activity in key markets. Industrial diamond sales went up by 9% q-o-q to 2.2 m cts and accounted for 27% of Q4 sales.

12M sales: 33.4 m cts

- **12M diamond sales decreased by 4.6 m cts (down 12%) and totalled 33.4 m cts** on the back of lower demand (primarily in 1H 2019) caused, among other things, by retail destocking.
- The decline in sales was caused by softer demand in the diamond jewellery markets after the record-high sales in 2018, particularly a somewhat weaker demand from end consumers in China and the USA amid the ongoing trade tensions.
- Polished diamond inventories piled up in 2018 on positive expectations for 2019 diamond jewellery demand that didn't justify. This resulted in growth of unclaimed inventory and decrease of prices. Deflation in polished diamond prices eroded midstream margins and, as a result, made industry financing more difficult.
- Moreover, the jewellery sector consolidation and an growing share of online jewellery sales result in an ongoing non-recurrent reduction in polished diamond stocks across the retail sector as more efficient stock management practices are introduced, which is in turn reflected in the amount of diamonds purchased by cutting and polishing companies.

Inventories: 22.6 m cts

- **Diamond inventories as at the end of Q4 2019 totalled 22.6 m cts** (up 0.9 m cts, or 4% q-o-q). On a y-o-y basis inventories were up 5.6 m cts (up 33%) due to both decreased sales and an increase in output. In October 2019, ALROSA Group consolidated Kristall group, with its diamond inventories standing at 0.3 m cts as at the end of Q4 2019 (included in total diamond inventories).

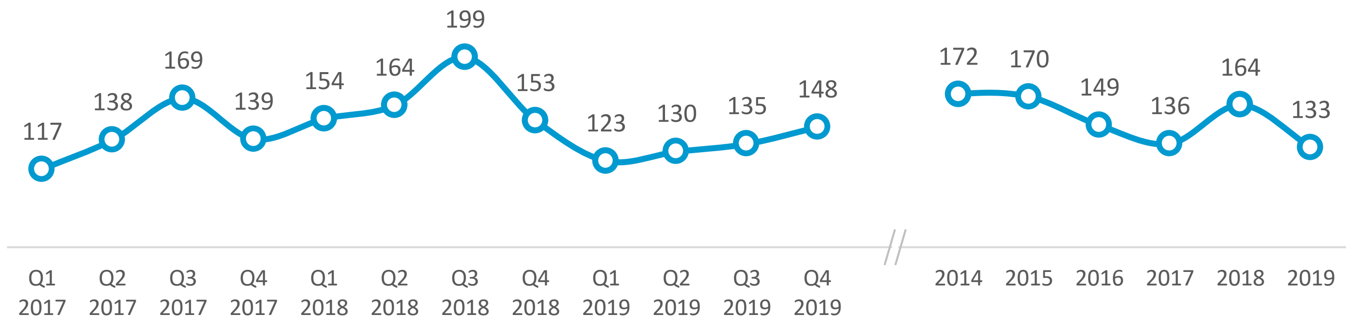
Q4 2019
Total sales: $916 m
Diamond sales: $888 m

- **Total sales in Q4 2019 amounted to $916 m**, including $888 m (up 48% q-o-q) in diamond sales (ex. polished diamonds), with a 28% q-o-q sales growth in carats due to a larger share of gem-quality diamond sales and a reduced share of small-size diamonds. An 8% y-o-y increase in sales amid a 9% reduction in sales in carats came as a result of a larger share of gem-quality diamond sales.
- **Q4 gem-quality diamond sales** in value terms increased by 50% q-o-q to $877 m, driven by a 38% uptick in sales in carats and a rise in the average realised price. On a y-o-y basis, gem-quality diamond sales improved by 9% as a result of sales in carats going up by 13% against the backdrop of a 3% decline in the average realised price, mostly due to the price index reduction.

12M 2019
Total sales:
$3,338 m
Diamond sales:
$3,273 m

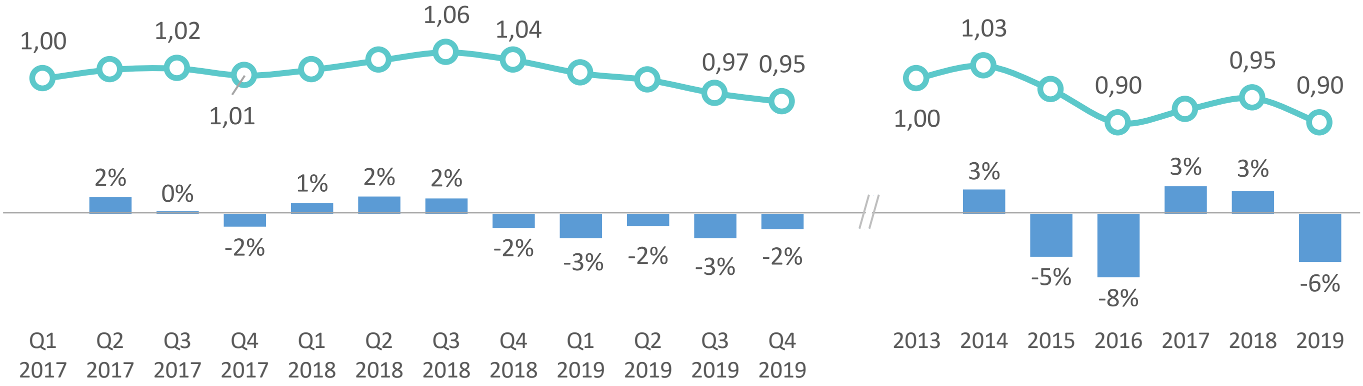
- **12M total sales amounted to $3,338 m (down 26%)**, including $3,273 m in diamond sales (ex. polished diamonds) (down 26%).
- **12M gem-quality diamond sales** amounted to $3,211 m, down by 26% amid an 8% decline in sales in carats and a 19% drop in the average realised price.
- **Polished diamond sales** (ex. Kristall sales – see below) **for Q4 and 12M** amounted to $28 m (up 2.9x q-o-q and up 31% y-o-y) and $65 m (down 32%), respectively.
- **Q4 average realised prices for gem-quality diamonds rose by 9% q-o-q** to $148/ct due to a lower share of small-size diamonds. In **12M**, average realised prices went down by 19% to **$133/ct**.

Average realised prices for gem-quality diamonds
$/ct



- **In Q4, the average LFL diamond price index** lost 2% q-o-q, with the 12M average index decrease by 6% y-o-y. During 12M 2019 (December 2019 to December 2018), the average diamond price index decreased by 9.1%.

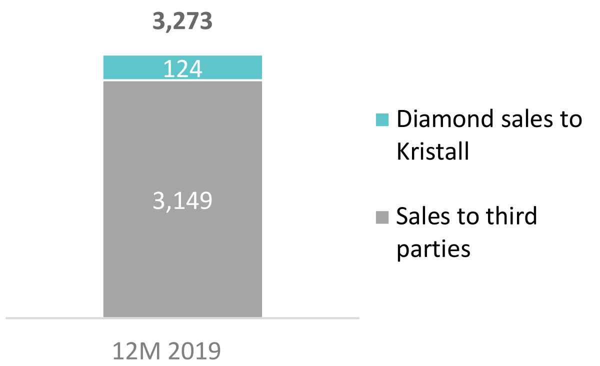
Gem-quality diamond price indices



- **Kristall group** was consolidated in October 2019 by ALROSA Group. Diamond sales by ALROSA Group include shipments to Kristall, which in 12M accounted for $124 m out of $3,273 m. In 12M, polished diamond sales by Kristall totalled $114 m.

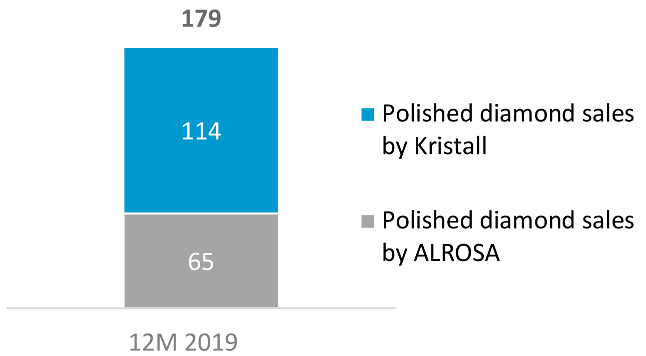
ALROSA diamond sales

$ m



Polished diamond sales

$ m



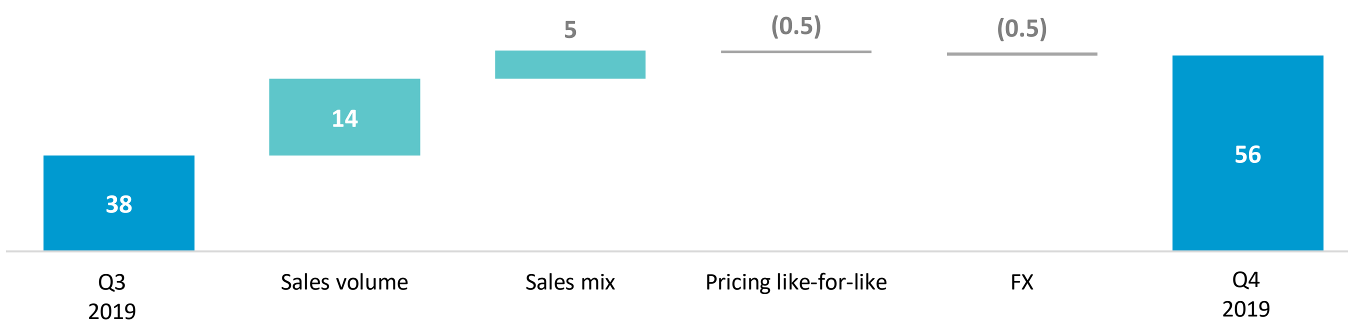
KEY FINANCIAL HIGHLIGHTS

Revenue

Revenue: RUB 64.6 bn

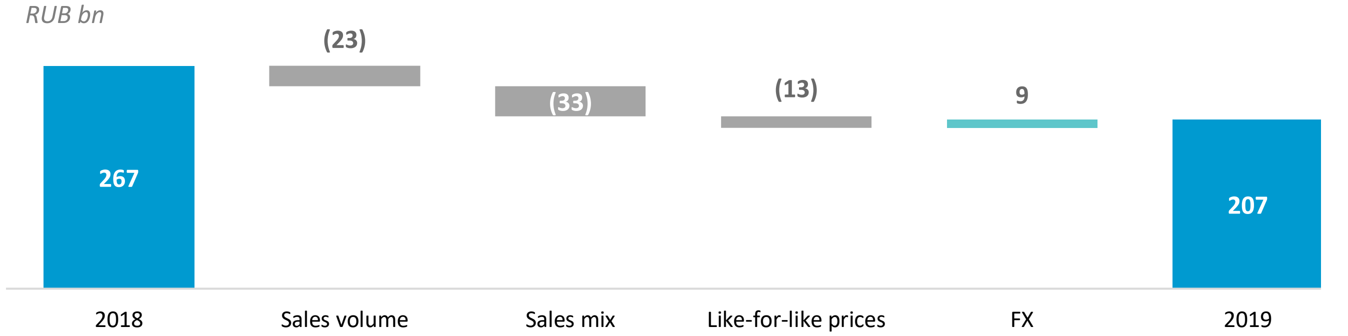
- **In Q4 2019, revenue increased by 41% q-o-q to RUB 64.6 bn,** due to higher sales in carats (up 28% q-o-q) and higher prices. On a y-o-y basis, revenue went up by 5% due to a sales mix change towards an increased share of gem-quality diamonds and lower sales in carats (down 9% y-o-y).
- **Revenue for 12M 2019 declined by 21% down to RUB 238 bn** mostly as a result of a 23% lower revenue from diamond sales following a 12% reduction in sales volumes, along with lower diamond price index, and a higher share of small-size diamonds in the sales mix.

Gem-quality rough diamond revenue – key drivers
RUB bn



- **Revenue from diamond sales** in Q4 went up to **RUB 58.3 bn** (up 48% q-o-q), including **revenue from gem-quality diamond sales at RUB 56.0 bn (+49% q-o-q)**, mainly due to stronger sales in carats.

Gem-quality rough diamond revenue – key drivers
RUB bn



- **On a y-o-y basis, revenue from diamond sales** increased by 4% as a result of a higher share of gem-quality diamond sales amid total sales declining by 9% y-o-y and a reduction in like-for-like prices for rough diamonds.
- In Q4 2019, **other revenue** decreased by 8% q-o-q to **RUB 4.7 bn** predominantly as a result of a seasonal decline in transportation business revenue (end of the summer vacation period in Q3 2019). A 21% rise y-o-y came

mostly on the back of higher revenue from Vilyuiskaya HPP-3 following a change in the electricity sales process.

- In Q4 2019, **income from grants** amounted to **RUB 1.7 bn** (up 32% q-o-q, down 1% y-o-y), driven by a rise in electricity grants (up 58% q-o-q, down -1%y-o-y) and increased grant for housing and utilities maintenance on the back of a higher volume of subsidised services in the autumn and winter period.
- In Q4 2019, **total sales costs** went up by 42% q-o-q to **RUB 35.1 bn** (up 2% y-o-y) as sales in carats improved by 28% q-o-q (down 9% y-o-y).

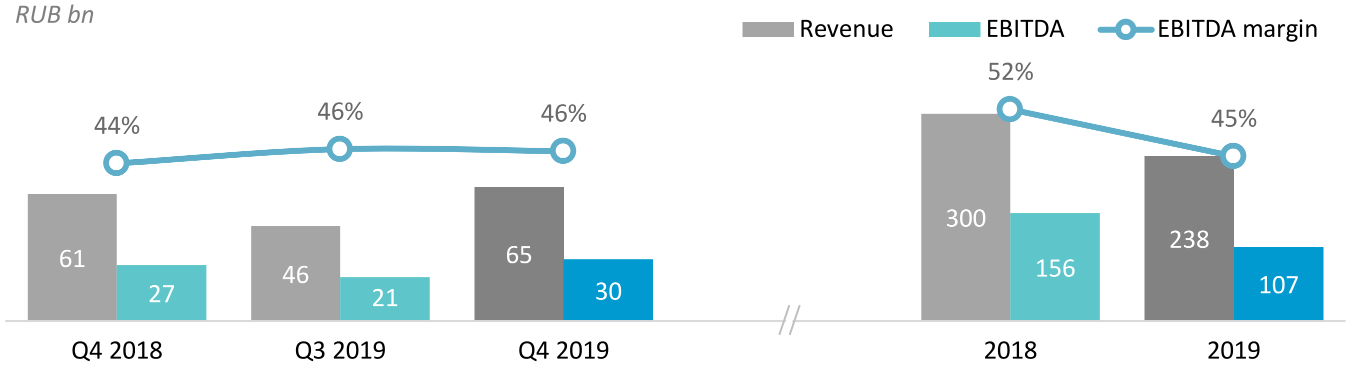
  Total costs of production in Q4 grew by 11% q-o-q (up RUB 4.0 bn) to **RUB 40.9 bn**. This growth was mostly attributable to the cost of disposal of Novy Sovkhoz (RUB 1.6 bn), changes in electricity purchasing scheme (RUB 1 bn), and seasonal factors.

  Decline in Q4 by 2% y-o-y (RUB 1 bn) was driven by the following:

  - 61% (RUB 1.7 bn) reduction in expenses on third-party services and transport, because lease payments were eliminated following the adoption of IFRS 16 Leases;
  - increase in other income (RUB 1.1 bn) mostly as a result of RUB 0.9 bn received in dividends for the 8.2% interest in Catoca Mining Ltd. recognised on the balance sheet as assets held for sale;
  - 7% (RUB 0.9 bn) reduction in payroll expenses as a result of headcount optimisation initiatives as well as change of procedure for payment of annual remuneration to various categories of employees;
  - increase in fuel and energy expenses by 78% y-o-y (RUB 2.6 bn) caused by (1) change of VGES-3 electricity procurement scheme in 2019, higher electricity tariffs and (2) higher fuel volumes and prices;
  - increase in social expenses by 41% (RUB 1.1 bn) due to recognition of one-off expenses associated with disposal of Novy Sovkhoz.

EBITDA

RUB bn



EBITDA: RUB 29.5 bn

- In Q4 2019, **EBITDA** increased to **RUB 29.5 bn** (up 40% q-o-q and 10% y-o-y) amid an increase in sales in carats (RUB 8.6 bn) and improved sales mix (RUB 5.2 bn).

  LTM EBITDA decreased by 31% to RUB 107.1 bn on the back of lower sales in carats (down RUB 10.3 bn) and changed sales mix (down RUB 33.1 bn).

- **FX rate impact** on 12M EBITDA was positive RUB 8.4 bn (Q4 negative effect: RUB 0.5 bn).

EBITDA margin
Q4 2019: 46%
12M 2019: 45%

- **EBITDA margin** in Q4 2019 remained at **46%** (flat q-o-q). On a y-o-y basis, it improved by 2 pp as total revenue gained 5% y-o-y with selling expenses decreasing by 68% y-o-y.

EBITDA

RUB m	**Q4 2019**	**Q3 2019**	**Q4 2018**	**12M 2019**	**12M 2018**
Operating profit	14,340	17,266	14,428	75,143	127,095
Depreciation	6,518	5,520	4,449	24,511	21,642
Adjustments (see financial statements in Excel)	8,660	(1,733)	8,042	7,400	7,235
EBITDA	**29,518**	**21,053**	**26,919**	**107,054**	**155,972**

Net profit:
RUB 11.7 bn

- **Net profit** in Q4 2019 went down by 14% q-o-q to **RUB 11.7 bn**, including as a result of higher social expenses and recognition of other expenses associated with the discontinuation of operations at processing plant No. 8 of the Aikhal Division: to enhance efficiency, ore from the Aikhal mine was transferred to processing plant No. 4. A 47% y-o-y growth is attributable to higher FX gains (up RUB 6.6 bn y-o-y).
- For **12M 2019**, net profit declined by 31% to RUB 62.7 bn on the back of lower revenue amid a rise in FX gains.

LIQUIDITY, WORKING CAPITAL AND CAPITAL EXPENDITURE

Cash flows

- **Cash and cash equivalents and 90+ days deposits** dropped by RUB 4.4 bn to **RUB 37.7 bn** in Q4 2019. The current liquidity position is in line with the corporate financial policy, which requires the Company to maintain a minimum liquidity pool of at least RUB 25 bn.

Operating activity

- In Q4 2019, **operating cash flow** increased 3.3x (up 11% y-o-y) to **RUB 23.7 bn** mainly as a result of stronger profitability (up 40% q-o-q, or RUB 8.5 bn) and slower growth of the working capital (from RUB 11.9 bn build-up in Q3 2019 to RUB 1.7 bn release in Q4 2019 (excluding Kristall group working capital at the date of acquisition: RUB 6.4 bn), total impact on operating cash flow for Q4 2019: RUB 13.6 bn). An 11% y-o-y rise is due to a number of factors of which the most important is improved profitability (up 10% y-o-y, or RUB 2.6 bn).
- For **12M 2019**, the cash flow went down by 44% to **RUB 67.6 bn** as a result of weaker profitability (down 31%, or RUB 48.9 bn) associated with declining sales, along with working capital growing by RUB 18.5 bn in 2019 (excluding Kristall group working capital at the date of acquisition: RUB 6.4 bn).

Working capital analysis

Working capital

RUB m	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Diamonds inventories	73,905	63,447	44,247	42,472	49,587
Ores and sands mined inventories	15,413	12,229	19,805	16,806	14,032
Mining and construction materials, consumable and other supplies	31,984	35,450	30,821	27,161	29,000
Trade and other receivables (excl. interest receivable)	12,873	16,756	20,751	17,894	17,911
Prepaid taxes, other than income tax	315	191	139	229	300
Accounts payable to employees	(11,917)	(11,376)	(11,961)	(12,198)	(12,591)
Trade and other payables (excl. interest payable)	(7,749)	(7,278)	(6,230)	(6,264)	(7,310)
Other taxes payable	(7,572)	(6,920)	(6,966)	(7,385)	(8,585)
Working capital	**107,252**	**102,499**	**90,606**	**78,715**	**82,344**

- **In Q4 2019, working capital grew** by 5% q-o-q (build-up RUB 4.8 bn) as a result of:
  - Cash factors (release RUB 1.7 bn):
    - increase in rough diamond inventories by RUB 2.4 bn (up 4%) mostly due to diamond production exceeded sales volumes throughout Q4;
    - seasonal rise in ores and sands mined by RUB 3.2 bn (up 26%), primarily at the alluvial deposits of Almazy Anabara;
    - seasonal decline in supplies by RUB 4.1 bn (down 12%) triggered by the end of the navigation period on the Lena River;
    - decrease in trade and other receivables by RUB 1.8 bn (down 11%) mainly as a result of a reduction in VAT claimed for reimbursement;
    - increase of other taxes payable by RUB 0.7 bn (+9%);
  - Non-cash factors (impact of Kristall group working capital consolidation) (up RUB 6.4 bn):
    - increase of rough diamond inventories by RUB 8.1 bn;
    - increase of materials by RUB 0.6 bn;
    - decrease of trade and other receivables by RUB 2.1 bn;
    - increase of trade and other payables by RUB 2.0 bn.

  As at the end of 2019, working capital grew by 30% y-o-y (up RUB 24.9 bn) as a result of:

  - Cash factors (build-up RUB 18.5 bn):
    - rough diamond inventories expanding by RUB 16.2 bn (up 33%) on the back of reduced sales as demand in the rough and polished diamonds market weakened and production volumes went up;
    - rise in ores and sands mined by RUB 1.4 bn (up 10%);
    - rise in supplies by RUB 2.4 bn (up 8%) due to more active operations and prices growth;
    - decrease in trade and other receivables by RUB 2.9 bn (down 16%) as a result of lower volumes of domestic sales with deferred payments;

   - decrease of other taxes payable by RUB 1.0 bn (-12%);
- Non-cash factors: impact of Kristall group working capital consolidation in Q4 '19 (up RUB 6.4 bn).

In Q4, working capital without impact of non-cash factors decreased by RUB 1.7 bn (-2% q-o-q), 12M build-up amounted to RUB 18.5 bn (+22%). Consolidation of Kristall group working capital at the acquisition date did not affect FCF.

- Inventories in carats increased by 5.5 m cts (up 33% y-o-y) to 22.6 m carats as at the end of Q4 2019.

Free cash flow

RUB m	**Q4 2019**	**Q3 2019**	**Q4 2018**	**12M 2019**	**12M 2018**
EBITDA	**29,518**	**21,053**	**26,919**	**107,054**	**155,972**
Changes in working capital	(4,753)	(11,893)	2,028	(24,908)	87
Income tax paid	(3,727)	(2,180)	(4,852)	(16,718)	(29,806)
Other	2,711	163	(2,787)	2,132	(6,131)
Operating cash flow	**23,749**	**7,143**	**21,308**	**67,560**	**120,122**
Capex	(6,924)	(4,640)	(7,025)	(19,974)	(27,816)
Free cash flow	**16,825**	**2,503**	**14,283**	**47,586**	**92,306**

FCF: RUB 16.8 bn

- **Free cash flow (FCF)** in Q4 increased 6.7x q-o-q to **RUB 16.8 bn** on the back of seasonally stronger operating cash flow despite capex growth by RUB 2.3 bn. On a y-o-y basis, FCF expanded by 18%, mainly due to improved operating cash flow. In 2H 2019, FCF stood at RUB 19.3 bn vs. RUB 30.3 bn in 2H 2018:
- For **12M 2019, FCF** totalled **RUB 47.6 bn**, going down by 48% amid reduced profitability driven by weaker sales along with a rise in the working capital in 2019, which was partly offset by our capex programme review and reduction of expenses from RUB 28.7 bn to RUB 20.0 bn).

Investing activities

Investments: RUB 6.9 bn

- **Cash outflow from investing activities (excluding outflow of cash to bank deposits)** in Q4 2019 stood at **RUB 8.2 bn**, mostly represented by capex of RUB 6.9 bn (up 49% q-o-q and down 1% y-o-y) and acquisition of Kristall group for RUB 1.3 bn.

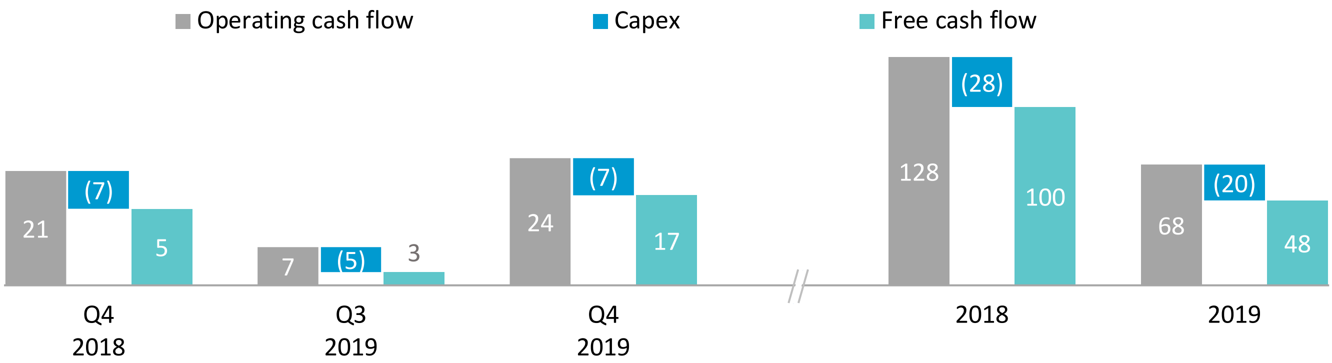
  For **12M 2019**, the outflow totalled **RUB 21.3 bn**, including capex of RUB 20.0 bn and Kristall group acquisition of RUB 1.3 bn.

- **Cash inflow from investing activities (excluding cash received from bank deposits)** in Q4 2019 amounted to **RUB 3.0 bn**, the main part of it being the RUB 2.6 bn dividend for 2018 received from Catoca Mining Ltd. as ALROSA's associate. The dividend was accrued in line with ALROSA's 41% stake in the company.
- For **12M 2019**, the inflow amounted to RUB 12.4 bn, mostly represented by the RUB 5.7 bn dividend for 2017 and 2018 received from Catoca Mining Ltd. as ALROSA's associate.

- **Net outflow from investing activities in Q4 2019**, including outflow of cash to bank deposits (RUB 3.6 bn), stood at RUB 8.9 bn, compared to a net outflow for **12M 2019**, including outflow of cash to bank deposits (RUB 14.7 bn), in the amount of RUB 23.6 bn.

Capex and free cash flow

RUB bn



Financing activities

Total debt: $1.9 bn

- **Total debt** (including operating lease obligations[6]) for 12M 2019 increased to **$1,895 m** (up 23% y-o-y) (or RUB 117.3 bn (up 10% y-o-y) in the rouble equivalent) mainly reflecting the replacement of bank loans repaid in 2019 with new loans maturing in 2021 in order to provide the Company with the liquidity it requires, along with a Eurobond issue of $500 m with a coupon rate of 4.65% due in April 2024 and a concurrent redemption of $400 m of the Eurobonds with a coupon rate of 7.75% due in November 2020.
- As at the end of 2019, the debt portfolio consists of two Eurobond issues (52% of total debt) amounting to $494 m and $500 m and bank loans for a total of $750 m (40% of total debt) maturing in 2021.
- As at the year-end 2019, debt portfolio (excl. lease liabilities) was denominated in US dollars (92%) and roubles (8%). Cash and cash equivalents, as well as deposits were denominated in US dollars (57%) and roubles (43%).
- **Interest payments** in 12M 2019 amounted to RUB 6.4 bn (flat y-o-y). Total interest payments went up to **RUB 8.1 bn** (up 22% y-o-y) owing to a premium paid to par due to the early redemption in April of $400 m Eurobonds due in 2020.

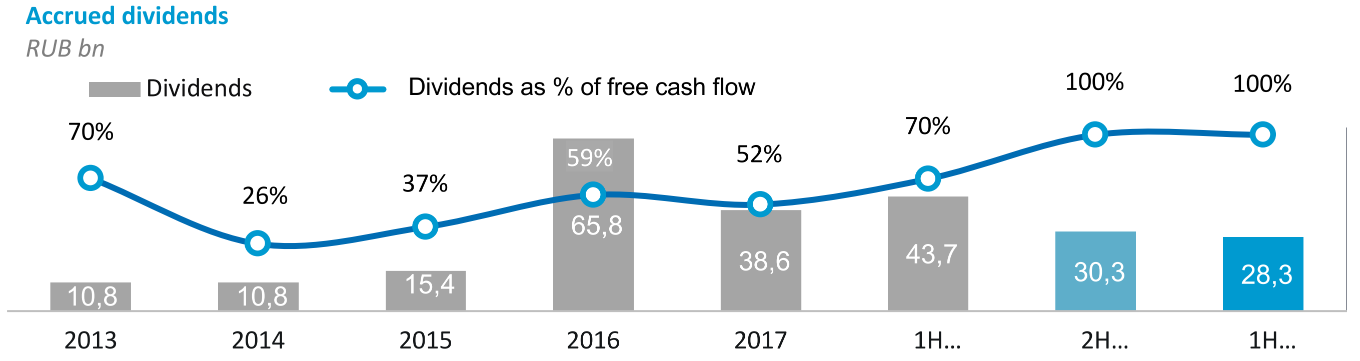
Net debt

RUB m	Q4 2019	Q3 2019	Q2 2019	Q1 2018	Q4 2019
Long-term debt	84,171	102,015	87,282	63,784	64,974
Short-term debt	33,113	3,064	1,948	42,782	41,687
Cash and cash equivalents	13,315	20,666	5,706	16,230	27,437
Bank deposits	24,340	21,408	48,117	51,590	11,784
Net debt	**79,629**	**63,005**	**35,407**	**38,746**	**67,440**

Net debt: $1.3 bn

- **Net debt** in 12M 2019 increased to **RUB 79.6 bn** (up 18% y-o-y) primarily due to the dividend payout for 2H 2018 and 1H 2019 for a total amount of RUB 57.5 bn.
- **Net debt / LTM EBITDA** stood at **0.7x** as at the end of 2019 (vs 0.4x as at the end of 2018).

[6] IFRS 16 Leases



- **Dividends for 2H 2018** – On 26 June 2019, the Annual General Meeting of Shareholders resolved to pay RUB 30.3 bn, or RUB 4.11 per share, in 2H 2018 dividends, which is equal to 100% of the free cash flow for the period (please see the press release).
- **Dividends for 1H 2019** – On 30 September 2019, the Extraordinary General Meeting of Shareholders resolved to pay RUB 28.3 bn, or RUB 3.84 per share, in 1H 2019 dividends, which is equal to 100% of the free cash flow for the period (please see the press release).
- **Dividends for 2H 2019** – at the Supervisory Board meeting slated for April 2020, the Board will recommend an amount of dividends for 2H 2019 to the General Meeting of Shareholders, which is to be convened in June 2020.

SOME OF THE FACTORS IMPACTING THE COMPANY'S OPERATING AND FINANCIAL PERFORMANCE

Macroeconomic environment

As the ALROSA Group (the "Group") exports its products to Europe and elsewhere and raises a substantial amount of foreign currency borrowings, while the bulk of its expenses is denominated in roubles, it is exposed to a foreign exchange risk arising chiefly from the fluctuations in the RUB/USD rate and, to a lesser degree, in the RUB/EUR rate.

The table below shows rouble to euro and US dollar exchange rates as determined by the Central Bank of the Russian Federation as at specific dates:

RUB m	**31 December 2019**	**30 September 2019**	**30 June 2019**	**31 March 2019**	**31 December 2018**
RUB/USD	61.9057	64.4156	63.0756	64.7347	69.4706
RUB/EUR	69.3406	70.3161	71.8179	72.7230	79.4605

The table further shows average RUB/USD and RUB/EUR exchange rates for the periods under review:

	Q4 2019	**Q2 2019**	**Q4 2018**	**12M 2019**	**12M 2018**
Average RUB/USD exchange rate for the period	63.7449	64.5936	66.5176	64.6184	62.9264
Average RUB/EUR exchange rate for the period	70.5360	71.8566	75.9392	72.3187	74.1330

MAJOR DEVELOPMENTS IN Q4 2019 AND AFTER THE REPORTING DATE

October 2019: Pursuant to the resolution of the Company's Supervisory Board dated 24 September 2019, ALROSA and the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) entered into a sale and purchase agreement for a 100% stake in Joint-Stock Company "Production Corporation "Kristall" for RUB 1,886 m. The deal was closed on 2 October 2019 (please see the press release).

October and November 2019: the Company raised a total of $250 m in bank loans for a period of two years to finance its current operations.

APPENDICES

Appendix 1. Key financial metrics

RUB bn	Q4 2019	Q3 2019	q-o-q	Q4 2018	y-o-y	12M 2019	12M 2018	y-o-y
Revenue, incl.:	**64.6**	**45.7**	*41%*	**61.4**	*5%*	**238.2**	**299.6**	*(21%)*
revenue from diamond sales	58.3	39.4	*48%*	55.8	*4%*	215.4	278.1	*(23%)*
other revenue	4.7	5.1	*(8%)*	3.8	*21%*	17.4	15.8	*10%*
income from grants	1.7	1.3	*32%*	1.7	*(1%)*	5.3	5.8	*(8%)*
Costs, incl.:	**40.9**	**36.9**	***11%***	**42.0**	***(2%)***	**149.6**	**140.5**	***6%***
production costs	23.6	22.6	*5%*	23.4	*1%*	88.6	81.4	*9%*
non-production costs	17.3	14.3	*21%*	18.5	*(6%)*	61.0	59.2	*3%*
movement of diamond inventory, ore and sands	(5.9)	(12.2)	–	(7.5)	–	(18.5)	3.2	–
EBITDA	**29.5**	**21.1**	***40%***	**26.9**	***10%***	**107.1**	**156.0**	***(31%)***
EBITDA margin	46%	46%	*(0.3%)*	44%	*2%*	45%	52%	*(7%)*
Depreciation and amortisation	(6.5)	(5.5)	*18%*	(4.4)	*47%*	(24.5)	(21.6)	*13%*
Financial income/(expenses)	1.8	(2.0)	–	(5.1)	–	2.8	(15.9)	–
Other income/(expenses)	(8.2)	2.9	–	(7.4)	–	(3.9)	(3.8)	–
Income tax	(5.0)	(2.8)	*79%*	(2.1)	*2.4x*	(18.7)	(24.2)	*(23%)*
Net profit	**11.7**	**13.6**	***(14%)***	**7.9**	***47%***	**62.7**	**90.4**	***(31%)***
Net profit margin	18%	30%	*(12 pp)*	13%	*5 pp*	26%	30%	*4 pp*
Free cash flow	**16.8**	**2.5**	***6.7x***	**14.3**	***18%***	**47.6**	**92.3**	***(48%)***
Net debt	**79.6**	**63.0**	***26%***	**67.4**	***18%***	**79.6**	**67.4**	***18%***
Net debt / LTM EBITDA	**0.7x**	**0.6x**	**–**	**0.4x**	**–**	**0.7x**	**0.4x**	**–**

Appendix 2. Revenue by customer geography

	Q4 2019	Q3 2019	Q4 2018	12M 2019	12M 2018
Belgium	42%	43%	43%	42%	55%
Russia	18%	22%	20%	19%	22%
India	19%	14%	13%	16%	17%
United Arab Emirates	8%	8%	8%	9%	12%
Israel	8%	7%	9%	7%	12%
China	3%	3%	4%	4%	5%
Other	3%	2%	3%	2%	3%

Appendix 3. Per unit costs

RUB '000 / cu m	**12M 2019**	**12M 2018**	***y-o-y***
Wages, salaries and other staff costs	0.62	0.62	*1%*
Fuel and energy	0.23	0.19	*19%*
Materials	0.18	0.17	*2%*
Services and transport	0.10	0.15	*(32%)*
Other	0.01	0.02	*(31%)*
Total	**1.14**	**1.15**	***(1%)***

Appendix 4. Structure (perimeter) of the report and overview of ALROSA's business

The report is a review of the financial condition of the Group for Q4 2019 compared to previous periods, and also of material factors that may influence the Group's future operations.

The Group's financial and operating details include PJSC ALROSA and its subsidiaries, associates and JVs. The report is published quarterly based on a schedule required for the Group's consolidated financial statements.

The report contains forward-looking statements subject to risks and uncertainties. As a result of a variety of factors, the Group's actual results may differ materially from future results projected by the forward-looking statements.

About the Company

The key strategic business of the Group is diamond mining and sales, prospecting and appraisal of diamond deposits, and production and sales of polished diamonds and diamond powders. As the industry's leader, the Group accounts for one third of all reserves worldwide and over 25% of global diamond mining.

The Group operates in two Russian regions – the Republic of Sakha (Yakutia) and Arkhangelsk Region, and in Africa through its associates and joint ventures.

The Group maintains and expands its resources and reserves by engaging in targeted exploration activities in line with a long-term development programme until 2024. The Group invests in geological exploration and prospecting of new potential diamond deposits while also carrying out follow-up exploration at existing assets. The Group conducts prospecting and appraisal in Russia and Africa.

While maintaining a focus on diamond mining, the Group is committed to a social policy based on social responsibility of businesses and relations with government agencies and local authorities that benefit all stakeholders in the regions of operations. The Group undertakes initiatives to mitigate its environmental footprint and ensure sustainable use of resources, all compliant with international environmental protection and safety standards.